

BSC Modification Proposal Form		At what stage is this document in the process?
<h1>P426</h1> <p><b>Mod Title:</b> Combining related BSC Parties' Energy Indebtedness positions for the Credit Cover Percentage calculation</p>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 2px solid green; border-radius: 10px; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">01</span> <span>Modification</span> </div> <div style="border: 2px solid blue; border-radius: 10px; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">02</span> <span>Workgroup Report</span> </div> <div style="border: 2px solid purple; border-radius: 10px; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">03</span> <span>Draft Modification Report</span> </div> <div style="border: 2px solid orange; border-radius: 10px; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">04</span> <span>Final Modification Report</span> </div> </div>
<p><b>Purpose of Modification:</b></p> <p>To remove inefficiencies with the Credit Cover calculation by allowing related BSC Parties to combine their Energy Indebtedness prior to calculating the Credit Cover Percentage.</p>		
<p><b>Does this Modification impact any of the European Electricity Balancing Guideline (EBGL) Article 18 Terms and Conditions held within the BSC?</b></p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>		
	<p>The Proposer recommends that this Modification should:</p> <ul style="list-style-type: none"> <li>not be a Self-Governance Modification Proposal</li> <li>be assessed by a Workgroup and submitted into the Assessment Procedure</li> </ul> <p>This Modification will be presented by the Proposer to the BSC Panel on <b>14 October 2021</b>. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.</p>	
	<p>High Impact:</p> <p>N/A</p>	
	<p>Medium Impact:</p> <p>N/A</p>	
	<p>Low Impact:</p> <p>Suppliers</p> <p>Elexon</p>	

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<b>Timetable</b>		 <i>karl.maryon@drax.com</i>
<b>The Proposer recommends the following timetable:</b>		 <i>075 1342 7447</i>
Initial consideration by Workgroup	15 November 2021	<b>Other:</b> <i>Paul Bedford</i>
Assessment Procedure Consultation	14 March 2022 - 01 April 2022	
Workgroup Report presented to Panel	14 April 2022	
Report Phase Consultation	20 April 2022 - 11 May 2022	
Draft Modification Report presented to Panel	09 June 2022	
Final Modification Report submitted to Authority	15 June 2022	
		 <i>paul.bedford@drax.com</i>
		 <i>079 1786 4859</i>

# 1 Why Change?

## What is the issue?

The current method for calculating BSC Party Energy Indebtedness is inefficient for Parties who have multiple BSC Parties within their group of companies.

Currently, BSC Party Energy Indebtedness is calculated individually for each BSC Party (a legal entity, registered with Companies House) and Credit Cover must be lodged on that basis. Currently there is no option for companies within the same group to provide collective credit arrangements. With individual calculation and lodging of credit, Parties are unable to optimise provision into a single position resulting in disproportionate and inefficient levels of credit being lodged in aggregate.

## Desired outcomes

The ability to optimise and enable more efficient credit arrangements will reduce the cost of providing credit for related Parties. Importantly this will not reduce the amount of Credit Cover lodged below the level needed to cover the risk of default, nor will it increase the Credit risk or cost for Parties that do not (or cannot) aggregate their credit provision in this way. As well as improving efficiency for existing related Parties, thereby making them more cost competitive, the arrangements would remove a potential barrier to entry for Parties wishing to adopt a related BSC Party corporate structure. Ultimately, implementing this proposal will remove inefficiencies imposed on related BSC Parties as unnecessary excess Credit Cover will no longer need to be lodged.

## 2 Solution

### Proposed Solution

The Proposal is to provide the option that related BSC Parties are able to rely on shared credit arrangements and provision. This would enable more efficient business operation by removing a significant operational and financial overhead without increasing the cost or exposure of other Parties. The current arrangements provide a significant operational and financial overhead.

Where BSC Parties are related (i.e. within the same body corporate), the proposal is that the Energy Indebtedness of each BSC Party should be combined and the Credit Cover Calculation then performed on the combined position.

This combined Credit Cover Percentage will then be referenced within [BSC Section M 'Credit Cover and Credit Default'](#).

### Benefits

Under the BSC, payments for Trading Charges arising on any given Settlement Day are typically made by Trading Parties 29 calendar days later. Therefore, at any given time a BSC Party may have debts for Trading Charges incurred over the previous 29 Days. Each Party is therefore required to lodge Credit Cover to ensure that, should it default, Elexon has sufficient collateral available to pay off its debts.

There has been industry recognition that there is significantly more Credit Cover lodged than is necessary in the event of a BSC Party(s) Defaulting. Around 45% of BSC Parties are related to at least one other by parent company and the Proposer believes that allowing related BSC Parties to combine their Energy Indebtedness prior to the Credit Cover Percentage being calculated will help address excessive credit requirements. In turn, a more optimal (and lower) level of Credit Cover will reduce the costs of those Parties, enabling them to price more competitively in the market resulting in lower costs to consumers.

Where related companies opt to take advantage of the arrangements, the Parties would be able to optimise the exposure they face and provide the necessary credit on that basis. This means, for example, that if one BSC Party was to have a strongly negative Energy Indebtedness but a related BSC Party were to have a lesser positive Energy Indebtedness, then combining the Energy Indebtedness would remove the need to lodge separate Credit Cover without any increase in risk to the Industry. In situations where all related BSC Parties have positive Energy Indebtedness, combining them for the Credit Cover Percentage calculation will also remove the need to provide a repeated operational credit 'buffer' for all related BSC Parties.

### 3 Relevant Objectives

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Neutral
(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity	<b>Positive</b>
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	<b>Positive</b>
(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]	Neutral
(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

The Proposer believes that this Modification will better facilitate the Applicable BSC Objectives, namely Objectives (c) and (d), when compared to the current baseline.

This Modification will promote both effective competition in the generation and supply of electricity and efficiency in the implementation of the balancing and settlement arrangements because the current setup requires related BSC Parties to potentially lodge unnecessarily high levels of Credit Cover. Reducing these levels to a more appropriate amount will result in savings across the industry which can be passed onto consumers and ease the barrier to entry for new Parties. Groups of related BSC Parties would no longer need to provide multiple lines of credit when only one is necessary, which would be more efficient for those BSC Parties and potentially for Elexon too.

## 4 Potential Impacts

### Impacts on Core Industry Documents

Impacted Core Industry Documents			
<input type="checkbox"/> Ancillary Services Document	<input type="checkbox"/> Connection and Use of System Code	<input type="checkbox"/> Data Transfer Services Agreement	<input type="checkbox"/> Use of Interconnector Agreement
<input type="checkbox"/> Retail Energy Code	<input type="checkbox"/> Distribution Connection and Use of System Agreement	<input type="checkbox"/> System Operator Transmission Owner Code	<input type="checkbox"/> Supplemental Agreements
<input type="checkbox"/> Distribution Code	<input type="checkbox"/> Grid Code	<input type="checkbox"/> Transmission License	<input type="checkbox"/> Other (please specify)

No impacts on other codes are anticipated.

### Impacts on BSC Systems

Impacted Systems				
<input checked="" type="checkbox"/> CRA	<input type="checkbox"/> CDCA	<input type="checkbox"/> PARMS	<input type="checkbox"/> SAA	<input checked="" type="checkbox"/> BMRS
<input type="checkbox"/> EAC/AA	<input checked="" type="checkbox"/> FAA	<input type="checkbox"/> TAAMT	<input type="checkbox"/> NHHDA	<input type="checkbox"/> SVAA
<input checked="" type="checkbox"/> ECVAA	<input type="checkbox"/> ECVAA Web Service	<input checked="" type="checkbox"/> Elexon Portal	<input type="checkbox"/> Other (Please specify)	

BMRS will need to be updated to account for groups of companies going into default rather than a single Party. ECVAA will need to be updated to calculate and publish credit positions based on groups of companies rather than a single Party and to account for credit default notices being sent to groups of companies rather than a single BSC Party. The FAA may need to be updated to account for the correct allocation on receipt of funds from a BSC Party within a group of companies.

### Impacts on BSC Parties

Impacted Parties			
<input checked="" type="checkbox"/> Supplier	<input type="checkbox"/> Interconnector User	<input type="checkbox"/> Non Physical Trader	<input checked="" type="checkbox"/> Generator
<input type="checkbox"/> Licensed Distribution System Operator	<input type="checkbox"/> National Electricity Transmission System Operator	<input type="checkbox"/> Virtual Lead Party	<input type="checkbox"/> Other (Please specify)

Suppliers would have the option to provide Credit Cover for a related group of BSC Parties rather than by individual BSC Party. There may be an impact on Supplier's systems and processes depending on how they manage their BSC Credit Cover.

## Impacts on consumers and the environment

Impact of the Modification on consumer benefit areas:	
Consumer benefit area	Identified impact
Improved safety and reliability	Neutral
Lower bills than would otherwise be the case  Related BSC Parties would need to lodge less Credit Cover reducing their cost base, which would result in downward pressure on prices and thus lower bills for consumers	<b>Positive</b>
Reduced environmental damage	Neutral
Improved quality of service	Neutral
Benefits for society as a whole	Neutral

## Legal Text Changes

This Modification proposes to make changes to [BSC Section M 'Credit Cover and Credit Default'](#) to reference combined Credit Cover Percentage.

There are expected to be consequential changes to relevant Code Subsidiary Documents.

## 5 Governance

### Self-Governance

<input checked="" type="checkbox"/> <b>Not Self-Governance</b> – A Modification that, if implemented:	
<input type="checkbox"/> materially impacts the Code’s governance or modification procedures	<input type="checkbox"/> materially impacts sustainable development, safety or security of supply, or management of market or network emergencies
<input checked="" type="checkbox"/> materially impacts competition	<input checked="" type="checkbox"/> materially impacts existing or future electricity consumers
<input type="checkbox"/> materially impacts the operation of national electricity Transmission System	<input type="checkbox"/> is likely to discriminate between different classes of Parties
<input type="checkbox"/> involves any amendments to the EBGL Article 18 Terms and Conditions related to Balancing; except to the extent required to correct an error or as a result of a factual change	
<input type="checkbox"/> <b>Self-Governance</b> – A Modification that, if implemented:	
Does not materially impact on any of the Self-Governance criteria provided above	

This Proposal should be submitted to Ofgem for decision as it will materially impact Parties Credit Cover requirements and consequently Parties ability to trade in the market place, impacting competition and ultimately consumers.

### Progression route

<input checked="" type="checkbox"/> <b>Submit to assessment by a Workgroup</b> – A Modification Proposal which:	
does not meet any criteria to progress via any other route.	
<input type="checkbox"/> <b>Direct to Report Phase</b> – A Modification Proposal whose solution is typically:	
<input type="checkbox"/> of a minor or inconsequential nature	<input type="checkbox"/> deemed self-evident
<input type="checkbox"/> <b>Fast Track Self-Governance</b> – A Modification Proposal which meets the Self-Governance Criteria and:	
is required to correct an error in the Code as a result of a factual change including but not limited to:	
<input type="checkbox"/> updating names or addresses listed in the Code	<input type="checkbox"/> correcting minor typographical errors
<input type="checkbox"/> correcting formatting and consistency errors, such as paragraph numbering	<input type="checkbox"/> updating out of date references to other documents or paragraphs
<input type="checkbox"/> <b>Urgent</b> – A Modification Proposal which is linked to an imminent issue or current issue that if not urgently addressed may cause:	
<input type="checkbox"/> a significant commercial impact on Parties, Consumers or stakeholder(s)	<input type="checkbox"/> a Party to be in breach of any relevant legal requirements.
<input type="checkbox"/> a significant impact on the safety and security of the electricity and/or gas systems	

## Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

Please treat this proposal as an SCR Exempt Modification Proposal.

## Does this Modification impact any of the EBGL Article 18 Terms and Conditions held within the BSC?

This Modification is not anticipated to impact the EBGL Article 18 Terms and Conditions as [BSC Section M 'Credit Cover and Credit Default'](#) is not specified in the mapping given in [BSC Section F 'Modification Procedures' Annex F-2](#). It is not anticipated to extend the terms or conditions either.

## Implementation approach

We would like this Modification to be implemented as soon as possible, subject to full consideration by the Workgroup, so that the benefits can be realised. The Implementation Date should be determined by the Workgroup, subject to impact assessments on Parties and Elexon's systems and processes.